

Message Text

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PAGE 01 OSLO 03961 311517Z
ACTION EUR-12

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AMEMBASSY PARIS
AMCONSUL FRANKFURT

C O N F I D E N T I A L OSLO 3961

PARIS FOR USOECD

E.O. 11652: GDS
TAGS: ETRD, EFIN, NO
SUBJ: NORWEGIAN DEVALUATION

1. BEGIN SUMMARY: NORWAY'S AUGUST 28 DECISION TO DEVALUE THE KRONER AGAINST THE MARK BY FIVE PERCENT GIVEN THE SWEDISH 10 PERCENT DEVALUATION IS LARGELY SEEN HERE AS THE ONLY THING TO DO IN THE CIRCUMSTANCES, BUT IT WILL INCREASE PRESSURE ON PRICE AND WAGES AND IS THUS A MOVE IN THE WRONG DIRECTION. THE ATTENTION OF NORWEGIAN VOTERS IN THE UPCOMING ELECTION IS BEING DRAWN TO THE FACT THAT IT WAS A NON-SOCIALIST GOVERNMENT IN SWEDEN THAT MADE A DECISION THT ESSENTIALLY THREATENS JOBS. NORWAY ALSO HAS SOME DOUBTS ABOUT REMAINING IN THE EUROPEAN CURRENCY SNAKE. END SUMMARY.

2. GON OFFICIALS ARE SAYING THAT THE NET DIRECT IMPACT ON THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OSLO 03961 311517Z

NORWEGIAN ECONOMY OF THE DEVALUATION AGAINST THE MARK AND THE RELATIVE APPRECIATION AGAINST THE SWEDISH KRONER WILL BE MINOR. THEY ARE WORIED, HOWEVER, ABOUT THE LONGER RUN IMPLICATIONS OF THE REALIGNMENT FOR UPWARD PRESSURE ON PRICES AND WAGES AND INSIST THAT THEY WOULD NOT HAVE MADE THE MOVE IF THE SWEDES HAD NOT FORCED IT ON THEM. THEY RECOGNIZE THERE MAY BE SHORT-TERM GAINS IN THE TRADE BALANCE WITH

COUNTRIES OTHER THAN SWEDEN, BUT THESE WILL BE QUITE MODEST AS THE KRONER IS EXPECTED TO FLOAT UPWARD WITHIN THE SNAKE FAIRLY QUICKLY, ACHIEVING AN EFFECTIVE DEVALUATION OF NO MORE THAN 2-2.5 PERCENT. AT THE SAME TIME, APPRECIATION OF THE KRONER AGAINST THE SWEDISH KRONER IS EXPECTED TO GO TO 6-7 PERCENT OR MORE. AS EXPORTS TO SWEDEN LAST YEAR ROSE BY 2 PERCENT AT THE SAME TIME THAT IMPORTS FROM SWEDEN ROSE BY 17 PERCENT, AND AS SWEDEN IS NORWAY'S MAIN TRADING PARTNER, ACCOUNTING FOR 17 PERCENT OF NORWAY'S TOTAL FOREIGN TRADE, THE GON IS UNDERSTANDABLY CONCERNED.

3. IF THE DEVALUATION WILL NOT HELP MUCH WITH NORWAY'S OVER-ALL BALANCE OF PAYMENTS DEFICIT THIS YEAR--WHICH SOME GON OFFICIALS ADMIT MAY GO TO NKR 25 BILLION COMPARED WITH AN OFFICIAL FORECAST OF NKR 18 BILLION, NIETHER WILL IT DO MUCH TO HOLD DOWN NORWAY'S RAPIDLY RISING LABOR COSTS, A PROBLEM INCREASINGLY RECOGNIZED AS FUNDAMENTAL TO THE WELL-BEING OF THE NORWEGIAN ECONOMY. ONE OF THE DIFFICULTIES OF EXPANSIVE COUNTER-CYCLICAL POLITICS WHICH PRODUCE A RAPID GROWTH IN PRIVATE CONSUMPTION--FOLLOWED SINCE 1975 BY THE GON--IS THE HIGH PROPORTION OF CONSUMER DEMAND DIRECTED TO IMPORTS. (CONSUMER GOODS IMPORTS ROSE BY 28 PERCENT IN THE FIRST HALF OF THIS YEAR AND VEHICLE IMPORTS BY ABOUT 40 PERCENT). EVEN MODEST INCREASES IN THE PRICES OF THESE GOODS WILL NOT MAKE THE GON'S TASK EASIER IN THE COLLECTIVE WAGE AGREEMENTS TO BE TACKLED

CONFIDENTIAL

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PAGE 03 OSLO 03961 311517Z

NEXT SPRING. GON OFFICIALS ADMIT PRIVATELY THAT THERE IS A LARGE GEDREE OF WISHFUL THINKING IN THEIR ASSESSMENT THAT THE EFFECT OF THE DEVALUATION ON THE CONSUMER PRICE INDEX WILL BE ONLY 0.2 PERCENT THIS YEAR AND 0.6 PERCENT IN 1978 "BECAUSE THE MODERATE DEVALUATION RATE IS UNLIKELY TO RESULT IN DEMAND FOR PRICE AND WAGE COMPENSATION." IN SHORT, THE GON CONCLUDES IN THIS CASE THAT, AS ONE POLITICAL LEADER IS QUOTED IN A LOCAL NEWSPAPER AS SAYING SOMEWHAT INELEGANTLY, "DEVALUATION IS LIKE WETTING YOUR PANTS TO KEEP WARM."

4. THE GON HAS PUBLICLY CRITICIZED THE SWEDISH GOVERNMENT FOR ITS DECISION AS CERTAIN TO INCREASE PRESSURE ON PRICES "AND WAGE" AND BY IMPLICATION THREATENING JOBS GIVEN SWEDISH INDUSTRY'S HIGH COST STRUCTURE. NORWAY'S FINANCE MINISTER, PER KLEPPE, TOOK PAINS DURING A PRESS CONFERENCE TO POINT OUT THAT THE DECISION WAS TAKEN BY A NON-SOCIALIST SWEDISH GOVERNMENT, FURTHER HAMMERING HOME THE LESSON FOR NORWEGIAN VOTERS BEFORE THE ELECTIONS ON SEPTEMBER 12 THAT IT IS THE LABOR PARTY AND NOT THE NON-SOCIALIST OPPOSITION THAT CAN BE EXPECTED TO BE MOST PROTECTIVE OF NORWEGIAN HIGH EMPLOYMENT LEVELS; TODAY UNEMPLOYMENT IS OFFICIALLY AT 0.7

PERCENT OF THE LABOR FORCE, ALTHOUGH THERE ARE 115,000 EMPLOYED IN PLANTS RECEIVING SOME FORM OF SUBSIDY. (IT WILL BE INTERESTING TO SEE, HOWEVER, WHAT THE NEXT BUDGET -- NON-SOCIALIST OR LABOR -- IMPLIES FOR EMPLOYMENT GIVEN THAT TOTAL INVESTMENT IN MANUFACTURING WILL BE ABOUT NKR 8 BILLION THIS YEAR AND TOTAL GOVERNMENT SUPPORT IN THE FORM OF LOANS, GUARANTEES AND SUBSIDIES WILL AMOUNT TO SOMETHING ON THE ORDER OF NKR 4 BILLION -- 2.8 BILLION TO SHIPBUILDING ALONE SO FAR THIS YEAR.) GON OFFICIALS HAVE ASSURED INDUSTRIES WHOSE COMPETITIVE POSITION VIS-A-VIS SWEDEN HAS BEEN PARTICULARLY AFFECTED THAT AT LEAST SOME ADDITIONAL GOVERNMENT SUPPORT WILL BE FORTHCOMING.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 OSLO 03961 311517Z

5. THE GON DECISION TO REMAIN IN THE SNAKE ON THE ASSUMPTION THAT PARTICIPATION ACTS AS A STABILIZING AND DISCIPLINING ELEMENT IN THE NORWEGIAN ECONOMY WAS QUESTIONED PUBLICLY BY HERMOD SKAANLAND, VICE CHAIRMAN OF THE BANK OF NORWAY. SKAANLAND ARGUED THAT NORWAY'S OBJECTIVE, MAINTAINING EXCHANGE RATE STABILITY IN RELATION TO ITS MAJOR TRADING PARTNERS, HAS BEEN SUBSTANTIALLY ERODED AS KEY TRADING PARTNERS HAVE LEFT THE SNAKE. HE EXPLAINED THAT WITH THE DEPARTURE OF SEDEN, ONLY 26 PERCENT OF NORWAY'S TRADE IS WITH SNAKE COUNTRIES AND A MORE SENSIBLE APPROACH WOULD BE TO TIE THE KRONER TO A TRADE WEIGHTED BASKET OF KEY CURRENCIES. WE READ SKAANLAND'S REMARKS AS NOTICE THAT WHATEVER THE GON MAY PREFER, IT WILL NOT IN FACT LET THE KRONER AND THE SWEDISH KRONER GET TOO FAR APART. LERNER

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